

**2009 Budget
Budget Assumptions
CONFIDENTIAL**

1. Sales

The 2009 OxyContin sales budget assumes that:

1. We are working to reach patent litigation settlements with KV, Actavis and Apotex in late 2008. The timing and elements of these settlements are not quantifiable at this time. When these settlements are final, the 2009 sales expectation may be adjusted.
2. OxyContin New Formula launches 7/1/09.
3. An OxyContin REM's program will be launched during 2009. The elements and timing of the OxyContin REM's program are uncertain, and therefore, not quantifiable. Our goal is to implement a REM's program that ensures continued patient access, and will exert only minimal impact on demand - while meeting the objectives expressed in the FDA's October 3 letter. When the elements of the REM's program become better characterized and market research is complete, the 2009 OxyContin sales expectation may be adjusted.
4. Remoxy launches 7/1/09.
5. Embedda launches 7/1/09.
6. Remoxy and Embedda launch with a REM's program with the same elements as the OxyContin REM's program.
7. Vicodin CR launches in 2010.
8. **Redacted**
9. OxyContin prices increase 6.5% on November 1, 2008 and 6.5% on September 1, 2009.
10. The Oxycodone controlled release market grows by 4.6% for the balance of 2008 and 4.6% in 2009, both measured in 20 mg. equivalent bottles.

11.

Redacted

[PAGE] of [NUMPAGES]

12. Wholesaler inventory levels will increase \$34 mm from end '08 to end '09, but material fluctuation during the year due to OTR launch.

2. Sales – Existing and Pipeline Assumptions

Pipeline Projects are launched as follows:

Product	Launch Date Assumptions
OxyContin New Formulation	7/1/09
BuTrans	Q3 2010
OXN	2011 (accelerated timeline scenario)
HTR	2012
POA	2015

3. Fee For Service

Wholesaler sales represent ^{Redacted} of all Rx sales. FFS is paid out at an average rate of ^{Redacted} based on contracted rates, reduced by the profit wholesalers earn on inventory held when Purdue increases price. As a result the net rate will be lower. The 2009 effective FFS rate could be approximately ^{Redacted} based on the projected price increase in September 2009.

4. Tramadol ER

- No budget for a Ryzolt (tramadol ER) approval or launch preparation work. As prospects become clearer, the budget will be reconsidered.
- J&J does not provide Purdue with royalty forecasts. 2009 budget assumes a flat sales of Ultram ER:

	2006	2007	2008	2009	2010
J&J Sales	91.1	161.3	177.0	177.0	177.0
Royalty from J&J at 2.5% to each of Purdue and Napp	2.3	4.0	4.4	4.4	4.4

5. Inflation Factor

[PAGE] of [NUMPAGES]

3% inflation on all costs except compensation and energy. Oil and energy cost based on mid-2008 pricing unless a long term contract is in place. For compensation, see below.

6. Human Resources

- a. Headcount increases (see attached). The cost of headcount increases are budgeted at mid-point of budgeted grade level compensation.
- b. Salaries and target bonuses are budgeted to increase by 5% (includes 4% merit, and an allowance of 1% to cover promotions and selected market place adjustments) per annum. The new salaries are budgeted to be paid April 1, 2009 forward.
- c. The healthcare component of benefit program expenses are budgeted to increase by 7%.
- d. The portion of non-field bonuses that are paid in Q1 2010 are assumed to be paid out at 100% of target if the sales and operating margin budget are achieved. We assume that the portion of the non-field bonuses that are long term will be paid out at 100%.
- e. Non-field bonuses have been budgeted in the Other Income and Expense line in the P&L.
- f. We assume no change to the current 401k and defined benefit pension plans. We assume a cash contributions of \$8 MM (\$5.8MM paid through October 27th) and \$34.8 MM to the defined benefit plans in 2008 and 2009, respectively.
- g. For employees that are eligible for LTRIP bonus grants, we have funded at each employee's target (35%, 50% or 65% of bonus).

7. Facilities

- a. The Ardsley site is sold on December 31, 2009 for net proceeds of \$15 MM & that no new leases are signed before sale. Purdue exercises the early buy-out option in December 2008 for a cash cost of \$5.8 MM. The 2009 results of Ardsley are included in the budget proposal and therefore include the cash funding required by PPLP to Millsaw, to reflect the planned spin out effective January 1, 2009.
- b. 1600 Summer Street lease is budgeted as per current lease.
- c. Floors 9 and 10 of One Stamford Forum are assumed to be occupied by Purdue through 2010.
- d. Totowa - We assume that the Totowa tenant, Discovery Labs, stays in its current footprint. See also 10.a and 10.b below.
- e. Garret Mountain - We assume no Garret Mountain space.

8. Rebates

- a. 2009 rebates reflect a full year effect of recent formulary gains from 2008 and the lifting of the Federal Upper Reimbursement Limit for Medicaid.
- b. The July 2009 launch of OxyContin New Formulation allows the baseline average manufacturers price to be reset, which will lower the Medicaid rebate rates by \$35MM in the second half of the year.
- c. IMS recommendations and potential strategy changes will be reviewed in late 2008. The 2009 budget does not reflect any changes that may arise out of this analysis.
- d. Additional legislation impact such as extending Medicaid pricing to dual eligibles in Medicaid Part D plans are not reflected in the budget at this time.

9. Authorized Generic Assumptions & Patent Litigation Settlements

- a. MS Contin authorized generic income is assumed to continue.

10. Manufacturing

- a. Totowa headcount reduced from 104 to 20. Severance reserve of \$8.5 million included in 2008LE, which assumes that communication is in 2008. We have also included a contingency of \$10 million for a potential acquirer or a delay in announcing the restructuring (in OI&E).
- b. We have not budgeted any impairment reserve related to mothball of Totowa. Any reserve is non cash and will be accounted for as needed following a third party valuation.
- c. We assume that Rhodes invoices Purdue for strategic inventory of thebaine (~8.7 tons) and oxycodone (~7 tons) at approximately \$27 million. As a result we have increased Purdue's inventory assumption by \$27 million with an offset to cash, effective January 2009.
- d. Projected \$6.7 million cash savings in 2009 and \$13.0 million in 2010 related to Totowa.
- e. Technology Transfer and Product Introductions - Rhodes Pharmaceuticals, HYD, OXN, others
 - 48% increase in development / registration batches
- f. Reconfigure Manufacturing & Supply Chain
 - Consolidate to single manufacturing site
 - Transfer of Senokot, Uniphyl and potential elimination of Oxy IR

11. S&P

- a. 50 reps and related support added in April 2009 (50 reps, 6 DMs, 1 RM and 1 Field Admin)
- b. Spending on OxyContin patient assistance program increased from \$9MM in 2008 to \$16MM in 2009.

[PAGE] of [NUMPAGES]

12. R&D

- a. Initiate clinical programs for:
 - i. Targin US (accelerated program not requiring a phase 3 program). We assume that Targin US development is funded by US for all years, until further notice.
 - ii. Hydrocodone QD TR.
 - iii. Butrans Additional Strengths.
 - iv. Redacted
- b. Initiate POA phase 2 program and 2 year carcinogenicity program.
- c. File Butrans NDA in mid 2009 and initiate a Phase 3b/4 program.
- d. Commence formulation development at LTS for a Butrans 2nd generation.

Redacted

13. Licensing & Business Development

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- d. Other possible new product opportunities will not be included in the 2009 budget, but rather will be presented to the Board for approval on a project-by-project basis, during the course of the year.

[PAGE] of [NUMPAGES]

14. Product Liability Settlements / Insurance Recoveries

- a. No additional product liability settlements are assumed in the 2009 budget. While there may be additional settlements, since the amount and timing are uncertain, and since they could be covered by insurance, we will not budget for them.
- b. 3rd party payor litigation is settled for \$21MM and is fully accrued in 2008.
- c. We assume that Zurich and Gerling continue to pay insurance. We continue to assume that we do not collect from XL Winterthur since amounts and timing are uncertain.
- d. We assume Par Litigation expenses continue to be invoiced 1/3rd to J&J and 1/3rd to Labopharm, with J&J continuing to reimburse their share. We continue to assume that we do not collect from Labopharm since the timing of agreement is uncertain.

15. European Start-Up and Mundipharma KG (Germany)

- e. \$48.9 million and \$23.3 million are assumed to be funded to European Start-Ups in 2009 and 2010, respectively.
- f. \$27.2 million and \$7.8 million are assumed to be funded to Mundipharma KG (Germany) in 2009 and 2010 respectively.

16. OxyContin Royalties

No change in royalty rates as a result of generic launches.
Royalty will be collected on ex-USA Targin sales – at 2%.
Royalty income projections provided from Management Revisions (with no discounting for probability of generic launches).

17. Legal Expenses

We expect flat spending (expected to be ~ \$69 MM in 2009) assuming winning or settling existing cases, minimal new activity and no new settlements.

18. Capital

Budgeted at \$45.0 MM which includes a President Reserve of \$5.0MM.

19. Insurance

- a. OTR product liability insurance is budgeted at \$2MM in 2009

20. Distribution

- a. The budget assumes partner distributions for tax payments at an effective tax rate of 40%

- b. Non-tax distributions are budgeted to maintain cash at 2.5 months of net sales.

21. Treasury/Finance

- a. 1% interest income earned on average cash balance.
- b. No third party debt.

22. Other

- a. A President Reserve of \$15MM is included in 2009 and 2010.